

**REPORT OF THE AUDIT OF THE  
JACKSON COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 3, 2002**



**EDWARD B. HATCHETT, JR.**  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**JACKSON COUNTY**  
**SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 3, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Jackson County Sheriff as of June 3, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,706,052 for the districts for 2001 taxes, retaining commissions of \$70,672 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,633,970 to the districts for 2001 Taxes. Refunds of \$686 are due to the Sheriff from the taxing districts.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Tommy Slone, Jackson County Judge/Executive

Honorable Tim Fee, Jackson County Sheriff

Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the Jackson County Sheriff's Settlement - 2001 Taxes as of June 3, 2002. This tax settlement is the responsibility of the Jackson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Jackson County Sheriff's taxes charged, credited, and paid as of June 3, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Tommy Slone, Jackson County Judge/Executive  
Honorable Tim Fee, Jackson County Sheriff  
Members of the Jackson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 5, 2003



JACKSON COUNTY  
TIM FEE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

June 3, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 127,487	\$ 268,996	\$ 862,608	\$ 225,172
Tangible Personal Property	9,679	23,460	71,940	55,531
Intangible Personal Property				36,896
Fire Protection	2,273			
Franchise Corporation	13,894	30,472	93,980	
Additional Billings	194	408	1,311	381
Unmined Coal - 2001 Taxes	32	67	215	56
Limestone, Sand, and Mineral Reserves	69	145	468	122
Penalties	1,844	3,856	12,378	3,302
Adjusted to Sheriff's Receipt	(108)	45	(266)	(80)
Gross Chargeable to Sheriff	<u>\$ 155,364</u>	<u>\$ 327,449</u>	<u>\$ 1,042,634</u>	<u>\$ 321,380</u>
<u>Credits</u>				
Exonerations	\$ 2,614	\$ 5,986	\$ 18,142	\$ 8,418
Discounts	1,565	3,290	10,497	4,065
Delinquents:				
Real Estate	6,851	14,299	45,937	11,991
Tangible Personal Property	526	1,276	3,913	1,266
Limestone, Sand, and Gravel Exonerations	12	25	81	21
Total Credits	<u>\$ 11,568</u>	<u>\$ 24,876</u>	<u>\$ 78,570</u>	<u>\$ 25,761</u>
Taxes Collected	\$ 143,796	\$ 302,573	\$ 964,064	\$ 295,619
Less: Commissions *	<u>6,399</u>	<u>12,859</u>	<u>38,563</u>	<u>12,851</u>
Taxes Due	\$ 137,397	\$ 289,714	\$ 925,501	\$ 282,768
Taxes Paid	137,315	289,430	924,933	282,292
Refunds (Current and Prior Year)	<u>149</u>	<u>436</u>	<u>1,035</u>	<u>476</u>
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (67)</u>	<u>\$ (152)</u>	<u>\$ (467)</u>	<u>\$ 0</u>

\* and \*\* See Page 4

The accompanying notes are an integral part of the financial statement.

JACKSON COUNTY  
TIM FEE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES  
June 3, 2002  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	731,988
4% on	\$	964,064

\*\* Special Taxing Districts:

Library District	\$	(67)
Health District		(54)
Extension District		<u>(31)</u>

Refunds Due Sheriff	\$	<u><u>(152)</u></u>
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JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 3, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 3, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 3, 2002  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2001 through June 3, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 26, 2001 through June 3, 2002.

Note 4. Interest Income

The Jackson County Sheriff earned \$1,650 as interest income on 2001 taxes. As of May 5, 2003 the Sheriff owes \$895 in interest to the school district and \$697 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$20,484 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Jackson County Sheriff collected \$250 of advertising costs and \$870 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. County Revenue Bond Should Adequately Protect County From Potential Loss

KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all tax monies in the Sheriff's possession. During 2001 tax year, the highest amount of tax collections on hand for the tax account was \$113,571. Since the Sheriff's county revenue bond was only \$90,000, the amount of the bond was inadequate to protect the county from potential loss.

COMMENT AND RECOMMENDATION



JACKSON COUNTY  
TIM FEE, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

June 3, 2002

STATE LAWS AND REGULATIONS:

None noted.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily collection report and then to the receipts ledger. Any differences should be reconciled. The Sheriff should document this by initialing the bank deposit, daily collection report, and receipts ledger.
- The Sheriff should periodically compare monthly tax reports to checks disbursed to each district. The Sheriff should document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*None.*

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties  
This comment has not been corrected and is repeated in the current year report.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**AUDITOR OF PUBLIC ACCOUNTS**

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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Jackson County Sheriff's Settlement - 2001 Taxes as of June 3, 2002, and have issued our report thereon dated May 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's Settlement - 2001 Taxes as of June 3, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is also considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 5, 2003

